

BEFORE  
THE PUBLIC SERVICE COMMISSION OF  
SOUTH CAROLINA  
DOCKET NO. 2011-7-G - ORDER NO. 2011-741

OCTOBER 13, 2011

IN RE: Application of Piedmont Natural Gas	)	INITIAL ORDER
Company, Incorporated to Have the Terms of	)	APPROVING
the Natural Gas Rate Stabilization Act Apply	)	QUARTERLY
to the Company's Rates and Charges for Gas	)	MONITORING REPORT
Distribution Services	)	AND ADOPTING
	)	SETTLEMENT
	)	AGREEMENT

This matter comes before the Public Service Commission of South Carolina (the Commission) pursuant to S.C. Code Ann. §§ 58-5-420(2) and 58-5-455, a portion of the Natural Gas Rate Stabilization Act, as related to Piedmont Natural Gas Company, Inc. (Piedmont or the Company). Order No. 2005-491 established a baseline return on equity for the Company under the Act, based on the Company's last rate case. See Order No. 2002-761. Section 58-5-455 sets out a procedure for the handling of monitoring reports under the Act related to the quarter ending March 31, which we detailed in Order No. 2005-491 at 5.

Briefly, under Section 58-5-455, the Company files the monitoring reports with the Commission and the Office of Regulatory Staff (ORS). Parties may comment on the reports. Where it appears to the Commission or ORS that an adjustment in rates may be warranted, ORS shall conduct an audit of the monitoring report and specify any changes that it determines are necessary to correct errors in the report or to otherwise bring the

report into compliance with the statute. Parties may comment on the ORS audit. On or before October 15, the Commission shall issue an initial order setting forth any changes required in the utility's request to adjust rates under the statute. Any gas rate adjustments authorized under the terms of the statute shall take effect for all bills rendered on or after the first billing cycle of November of that year. This present order is the "initial order" contemplated by S.C. Code Ann. Section 58-5-455 for Piedmont.

Pursuant to the South Carolina Natural Gas Rate Stabilization Act ("Act"), Piedmont submitted its quarterly monitoring report for the twelve-month period ending March 31, 2011, as well as the required revenue calculations and any proposed changes to its tariff rates necessary to permit Piedmont the opportunity to earn the rate of return on common equity established in its last general rate case as specified in Section 58-5-420(1).

The ORS conducted a review of Piedmont's Monitoring Report for the twelve-month period ending March 31, 2011, to evaluate compliance with Section 58-5-430 and Section 58-5-440 of the Act. The ORS proposed certain adjustments to reported amounts to bring the report into conformance with those sections. Piedmont filed written comments advising the Commission that Piedmont had no objection to or comments on the findings and adjustments reflected in the ORS Audit Report.

A Settlement Agreement was reached by and among Piedmont and ORS (collectively, the Parties). The Settlement Agreement and exhibits are attached hereto as Order Exhibit 1. Under the terms of the Settlement Agreement, Piedmont will implement rates for the twelve-month period beginning with the first billing cycle of November

2011, calculated on the basis of an 11.3% return on equity (ROE). The Parties agree that Piedmont will adopt the accounting adjustments of ORS as set forth in Schedule 2 attached to the Settlement Agreement. The Parties further agree that, based upon the accounting adjustments proposed by ORS and adopted by Piedmont, and the agreement of Piedmont to implement rates based upon an 11.3% ROE, South Carolina ratepayers will realize a decrease in current margin rates totaling \$3,145,000. The Settlement Agreement states that this equates to a reduction of \$4,881,739 for South Carolina ratepayers when compared to rates calculated on Piedmont's authorized 12.6% ROE, which is authorized by Commission Order Nos. 2002-761, 2005-491, and 2005-567. The Parties further agree to an increase in demand cost of \$40,737, due to a demand cost under-recovery.

We have examined the accounting and pro forma adjustments proposed and agreed upon by the parties, as well as the Settlement Agreement, and we take no exception to them.

### **FINDINGS AND CONCLUSIONS**

1. S.C. Code Ann. Section 58-5-455, a portion of the Natural Gas Rate Stabilization Act, requires the filing of certain documents and the issuance of this Initial Order.
2. Changes are required to the Company's request to adjust rates.
3. ORS has suggested certain changes to which Piedmont does not object, as outlined above. Indeed, the parties have reached a Settlement Agreement.

4. This Commission has found no other changes appropriate or necessary other than those agreed to by the parties.

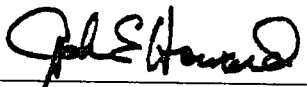
5. The Settlement Agreement is approved. This Commission adopts the changes and adjustments proposed by the parties and the resulting rates and charges.

6. The new approved rates and charges shall be effective for bills rendered on and after the first billing cycle in November 2011, subject to changes under the Company's Gas Cost Recovery Mechanism.

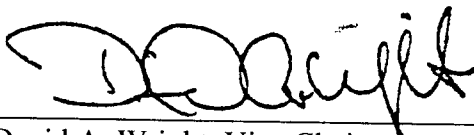
7. The Company shall file new tariffs prior to its first billing cycle in November 2011 to reflect the rates and charges approved herein adjusted for its most recent Gas Cost Recovery Mechanism filing.

8. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

  
\_\_\_\_\_  
John E. Howard, Chairman

ATTEST:

  
\_\_\_\_\_  
David A. Wright, Vice Chairman

(SEAL)

**BEFORE**  
**THE PUBLIC SERVICE COMMISSION OF**  
**SOUTH CAROLINA**  
**DOCKET NO. 2011-7-G**

August 31, 2011

IN RE:

Application of Piedmont Natural Gas           )  
Company, Incorporated to Have the Terms       )  
of the Natural Gas Rate Stabilization Act       )  
Apply to the Company's Rates and Charges       )  
for Gas Distribution Services                        )

**SETTLEMENT AGREEMENT**

This Settlement Agreement is made by and among the Office of Regulatory Staff of South Carolina ("ORS") and Piedmont Natural Gas Company, Inc. ("PNG") (collectively referred to as the "Parties" or sometimes individually as a "Party").

WHEREAS, by Public Service Commission of South Carolina ("Commission") Order Nos. 2005-491, dated September 28, 2005, and 2005-567, dated October 13, 2005, the Commission established a baseline for PNG under the Natural Gas Rate Stabilization Act (the "Act") and approved certain accounting adjustments proposed by ORS and PNG;

WHEREAS, pursuant to S.C. Code Ann. § 58-5-455 (Supp. 2010), PNG filed its Quarterly Monitoring Report and Proposed Rate Changes with the Commission on June 15, 2011 for the review period consisting of April 1, 2010 through March 31, 2011 ("Review Period");

WHEREAS, the Report of ORS' examination of PNG's Monitoring Report for the Twelve-Month Period Ending March 31, 2011, pursuant to the Act, was filed with the Commission on August 31, 2011;

WHEREAS, the Parties to this Settlement Agreement are the only parties of record in the above-captioned docket;

WHEREAS, the Parties have engaged in discussions to determine if a settlement of this proceeding would be in their best interest; and

WHEREAS, following those discussions the Parties have each determined that their interests, and ORS has determined that the public interest, would be best served by settling the above-captioned case under the terms and conditions set forth below:

1. PNG will implement rates for the twelve-month period beginning with the first billing cycle of November 2011 calculated on the basis of an 11.3% Return On Equity ("ROE") instead of the 12.6% ROE approved by Commission Orders No. 2002-761, 2005-491, and 2005-567.

2. The Parties agree that the following are the only attachments to this Settlement Agreement: Schedule 1 (Net Operating Income and Rate of Return); Schedule 2 (Explanations of Accounting and Pro Forma Adjustments); and Schedule 3 (Weighted Cost of Capital).

3. The Parties agree that PNG will adopt the accounting adjustments of ORS as set forth in Schedule 2 as attached to this Settlement Agreement which include adjustments based upon PNG's most recent 2009 depreciation study.

4. The Parties agree that, based upon the accounting adjustments proposed by ORS and adopted by PNG, and the agreement of PNG to implement rates based on an 11.3% ROE, South Carolina ratepayers will realize a decrease in current margin rates totaling \$3,145,000. This equates to a reduction of \$4,881,739 for South Carolina ratepayers when compared to rates calculated on PNG's authorized 12.6% ROE.

5. The Parties agree to an increase in demand cost of \$40,737, due to a demand cost under-recovery.

6. The Parties agree to cooperate in good faith with one another in recommending to the Commission that this Settlement Agreement be accepted and approved by the Commission as a fair, reasonable and full resolution of the above-captioned proceeding. The Parties agree to use reasonable efforts to defend and support any Commission order issued approving this Settlement Agreement and the terms and conditions contained herein.

7. The Parties agree that by signing this Settlement Agreement, it will not constrain, inhibit or impair their arguments or positions in future proceedings. Should the Commission decline to approve the agreement in its entirety, then any Party desiring to do so may withdraw from the Settlement Agreement without penalty.

8. This Settlement Agreement shall be interpreted according to South Carolina law.

9. Each Party acknowledges its consent and agreement to this Settlement Agreement by authorizing its counsel to affix his or her signature to this document where indicated below. Counsel's signature represents his or her representation that his or her client has authorized the execution of the agreement. Facsimile signatures and e-mail signatures shall be as effective as original signatures to bind any party. This document may be signed in counterparts, with the various signature pages combined with the body of the document constituting an original and provable copy of this Settlement Agreement.

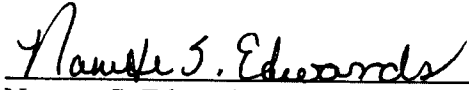
August 31, 2011

[SIGNATURE PAGES FOLLOW]



WE AGREE:

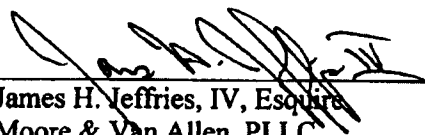
**Representing and binding the Office of Regulatory Staff**

A handwritten signature in black ink, reading "Nanette S. Edwards", written over a horizontal line.

Nanette S. Edwards, Esquire  
Office of Regulatory Staff  
1401 Main Street, Suite 900  
Columbia, SC 29201  
Phone: (803) 737-0575  
Fax: (803) 737-0895  
Email: [nsedwar@regstaff.sc.gov](mailto:nsedwar@regstaff.sc.gov)

WE AGREE:

**Representing and binding Piedmont Natural Gas Company, Inc.**



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James H. Jeffries, IV, Esquire  
Moore & Van Allen, PLLC  
100 North Tryon Street, Ste. 4700  
Charlotte, NC 28202  
Phone: 704-331-1079  
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Settlement Schedule 1

Piedmont Natural Gas Company  
South Carolina Operations  
Net Operating Income and Rate of Return  
For the Twelve Months Ended March 31, 2011  
Docket No. 2011-7-G

	(1) Per Regulatory Books	(2) ORS Accounting and Pro Forma Adjustments	(3) ORS As Adjusted	(4) Adjustments for Proposed Margin Decrease	(5) Adjustment for Demand Cost Under-Recovery	(6) Total After Proposed Rates
<b>Operating Revenues</b>						
1 Sale and Transportation of Gas	\$ 156,169,231	\$ (8,162,227)	(1) \$ 150,007,004	(10) \$ (3,145,000)	(16) \$ 40,737	\$ 146,902,741
2 Other Operating Revenues	979,298	0	979,298			979,298
3 Total Operating Revenues	157,148,529	(8,162,227)	150,986,302	(3,145,000)	40,737	147,882,039
<b>Operating Expenses</b>						
4 Cost of Gas	88,016,349	(9,350,559)	78,665,790		40,419	78,706,209
5 Operations and Maintenance	26,546,358	(287,730)	26,258,628	(9,067)	117	26,249,678
6 Depreciation	12,063,484	(1,162,453)	10,901,031		201	10,901,031
7 General Taxes	6,299,978	(37,493)	6,262,485	(15,480)		6,247,206
8 State Income Taxes	1,218,795	4,134	1,222,929	(156,022)		1,066,907
9 Federal Income Taxes	5,783,404	2,326,275	8,109,679	(1,037,551)		7,072,128
10 Amortization of Investment Tax Credits	(44,706)		(44,706)			(44,706)
11 Total Operating Expenses	139,883,662	(8,507,826)	131,375,836	(1,218,120)	40,737	130,198,453
12 Net Operating Income	17,264,867	2,345,599	19,610,466	(1,926,880)	0	17,683,586
13 Interest on Customers' Deposits	(145,207)		(145,207)			(145,207)
14 Amortization of Debt Redemption Premium	0		0			0
15 Allowance for Funds Used During Construction	129,912		129,912			129,912
16 Customer Growth	15,528	2,318	17,846	(1,753)		16,093
17 Net Operating Income for Return	\$ 17,265,100	\$ 2,347,917	\$ 19,613,017	\$ (1,928,633)	\$ 0	\$ 17,684,384
<b>Rate Base:</b>						
18 Plant in Service	\$ 396,347,137	0	\$ 396,347,137			\$ 396,347,137
19 Accumulated Depreciation	(168,079,845)		(168,079,845)			(168,079,845)
20 Net Plant in Service	228,267,292	0	228,267,292			228,267,292
21 Add:						
22 Construction Work in Progress	3,995,469		3,995,469			3,995,469
23 Materials and Supplies	14,736,592		14,736,592			14,736,592
24 Cash Working Capital	740,448	(66,947)	673,501			673,501
Deduct:						
25 Customers' Advances	0		0			0
26 Customers' Deposits	4,455,698		4,455,698			4,455,698
27 Accumulated Deferred Income Taxes	50,783,136		50,783,136			50,783,136
28 Unclaimed Funds	99,175		99,175			99,175
28 Total Rate Base:	\$ 192,401,792	\$ (66,947)	\$ 192,334,845			\$ 192,334,845
29 Rate of Return	8.97%		10.20%			9.19%
30 Return on Equity	10.94%		12.94%			11.30%

**Settlement Schedule 2**

**Piedmont Natural Gas Company  
South Carolina Operations  
Explanations of Accounting and Pro Forma Adjustments  
Twelve Months Ended March 31, 2011  
Docket No. 2011-7-G**

<b><u>Line No.</u></b>	<b><u>Description</u></b>	<b><u>Per Piedmont</u></b>	<b><u>Per ORS</u></b>
<b>1</b>	<b><u>Operating Revenues - Sale and Transportation of Gas</u></b>		
	To decrease revenues on a going-level basis.	\$ <u>(6,162,227)</u>	\$ <u>(6,162,227)</u>
	<b><u>Total Operating Revenues - Sale and Transportation of Gas</u></b>	\$ <u>(6,162,227)</u>	\$ <u>(6,162,227)</u>
<b>2</b>	<b><u>Cost of Gas</u></b>		
	To decrease cost of gas on a going-level basis.	\$ <u>(9,350,559)</u>	\$ <u>(9,350,559)</u>
	<b><u>Total Cost of Gas</u></b>	\$ <u>(9,350,559)</u>	\$ <u>(9,350,559)</u>
<b>3</b>	<b><u>Operations and Maintenance Expenses</u></b>		
a.	To annualize the payroll expense as of March 31, 2011, and to disallow officer salary increases in conformance with PSC Order No. 2002-761, dated November 1, 2002.	\$ (444,828)	\$ (444,828)
b.	To decrease expenses for the salary and payroll investment plan. The plan allows participants to defer a portion of their base salary and the Company matches a portion of the participant's contribution.	(28,169)	(28,169)
c.	To adjust pension costs included in the filing.	42,817	42,817
d.	To adjust uncollectible gas cost expense utilizing the method approved in Docket No. 2006-4-G, Order No. 2006-527, dated October 11, 2006. This removes uncollectible gas cost expense from base rates and records the amount in account #253.04. The applicable uncollectible gas cost rate is .28829%.	(17,235)	(17,235)
e.	To decrease expenses for allocations to non-utility activities.	(22,007)	(22,007)
f.	To increase expenses for the Long-Term Incentive Plan.	56,823	56,823
g.	To decrease expenses for the Short-Term Incentive Plan.	(133,980)	(133,980)
h.	To decrease expenses for the MVP Incentive Plan.	(13,341)	(13,341)
i.	To increase expenses for group insurance.	49,427	49,427
j.	To increase expenses for the Piedmont Town Center lease.	3,210	3,210
k.	To increase expenses for Piedmont Town Center CAM expense.	3,137	3,137
l.	To increase expenses for amortization of early retirement incentive.	151,229	151,229

Settlement Schedule 2

Piedmont Natural Gas Company  
South Carolina Operations  
Explanations of Accounting and Pro Forma Adjustments  
Twelve Months Ended March 31, 2011  
Docket No. 2011-7-G

Line No.	Description	Per Piedmont	Per ORS
m.	To increase expenses for the South Carolina assessment fee.	(5,935)	1,327
n.	To decrease expenses for items that are nonallowable for ratemaking purposes.	(150,452)	(298,027)
o.	To increase expenses for Gas Technology Institute expenses.	150,000	150,000
p.	To increase expenses for SC Environmental Expense.	466,223	211,887
	<b><u>Total Operations and Maintenance Expense</u></b>	<b><u>\$ 106,919</u></b>	<b><u>\$ (287,730)</u></b>
4	<b><u>Depreciation Expense</u></b>		
	To decrease depreciation expense on a going-level basis using the most current depreciation study rates.	\$ 786,972	\$ (1,162,453)
	<b><u>Total Depreciation Expense</u></b>	<b><u>\$ 786,972</u></b>	<b><u>\$ (1,162,453)</u></b>
5	<b><u>General Taxes</u></b>		
a.	To increase property taxes on a going-level basis.	\$ 77,997	\$ 77,997
b.	To decrease payroll tax expense.	(94,000)	(85,159)
c.	To decrease franchise taxes (rate of .3%) and gross receipts tax (rate of .19221%) for the adjustment made to decrease revenues on a going-level basis.	0	(30,331)
	<b><u>Total General Taxes</u></b>	<b><u>\$ (16,003)</u></b>	<b><u>\$ (37,493)</u></b>
6	<b><u>State Income Taxes</u></b>		
	To adjust state income taxes (rate of 5%) to reflect the impact on income of accounting and pro forma adjustments.	\$ (114,359)	\$ 4,134
	<b><u>Total State Income Taxes</u></b>	<b><u>\$ (114,359)</u></b>	<b><u>\$ 4,134</u></b>
7	<b><u>Federal Income Taxes</u></b>		
	To adjust federal income taxes (rate of 35%) to reflect the impact on income of accounting and pro forma adjustments.	\$ 1,538,296	\$ 2,326,275
	<b><u>Total Federal Income Taxes</u></b>	<b><u>\$ 1,538,296</u></b>	<b><u>\$ 2,326,275</u></b>

Settlement Schedule 2

Piedmont Natural Gas Company  
South Carolina Operations  
Explanations of Accounting and Pro Forma Adjustments  
Twelve Months Ended March 31, 2011  
Docket No. 2011-7-G

Line No.	Description	Per Piedmont	Per ORS
8	<b><u>Customer Growth</u></b>		
	To adjust net operating income to reflect an anticipated increase in customer growth (rate of .091%) following the adjustments to operating revenues and expenses.	\$ 804	\$ 2,318
	<b><u>Total Customer Growth</u></b>	\$ 804	\$ 2,318
9	<b><u>Cash Working Capital</u></b>		
	To decrease cash working capital following the pro forma adjustments to operation and maintenance expenses (rate of 12.5%) as reflected in the Original Filing.	\$ (17,616)	\$ (66,947)
	<b><u>Total Cash Working Capital</u></b>	\$ (17,616)	\$ (66,947)
10	<b><u>Operating Revenues - Sale and Transportation of Gas</u></b>		
	To decrease revenues from the sale and transportation of gas for the proposed margin decrease. ORS has recalculated this adjustment utilizing all ORS adjustments to operating revenues.	\$ 1,736,739	\$ (3,145,000)
	<b><u>Total Operating Revenues - Sale and Transportation of Gas</u></b>	\$ 1,736,739	\$ (3,145,000)
11	<b><u>Operations and Maintenance Expenses</u></b>		
a.	To adjust the provision for uncollectible accounts (.28829%) for the proposed margin decrease.	\$ 5,007	\$ (9,067)
b.	To increase the utility license fee (rate of .3%) following the adjustment to operating revenues.	3,247	0
	<b><u>Total Operations and Maintenance Expenses</u></b>	\$ 8,254	\$ (9,067)
12	<b><u>General Taxes</u></b>		
	To adjust franchise taxes (rate of .3%) and gross receipts tax (rate of .192213%) for the proposed margin decrease.	\$ 5,185	\$ (15,480)
	<b><u>Total General Taxes</u></b>	\$ 5,185	\$ (15,480)

Settlement Schedule 2

Piedmont Natural Gas Company  
South Carolina Operations  
Explanations of Accounting and Pro Forma Adjustments  
Twelve Months Ended March 31, 2011  
Docket No. 2011-7-G

Line No.	Description	Per Piedmont	Per ORS
13	<b><u>State Income Taxes</u></b>		
	To adjust state income taxes (rate of 5%) to reflect the impact on income from the proposed margin decrease.	\$ 86,165	\$ (156,022)
	<b><u>Total State Income Taxes</u></b>	<b>\$ 86,165</b>	<b>\$ (156,022)</b>
14	<b><u>Federal Income Taxes</u></b>		
	To adjust federal income taxes (rate of 35%) to reflect the impact on income from the proposed margin decrease.	\$ 572,997	\$ (1,037,551)
	<b><u>Total Federal Income Taxes</u></b>	<b>\$ 572,997</b>	<b>\$ (1,037,551)</b>
15	<b><u>Customer Growth</u></b>		
	To adjust net operating income to reflect an anticipated increase in customer growth (rate of .091%) following the proposed margin decrease.	\$ 965	\$ (1,753)
	<b><u>Total Customer Growth</u></b>	<b>\$ 965</b>	<b>\$ (1,753)</b>
16	<b><u>Operating Revenues - Sale and Transportation of Gas</u></b>		
	To increase the revenue requirement for the sale and transportation of gas associated with demand cost under-recovery.	\$ 40,732	\$ 40,737
	<b><u>Total Operating Revenues - Sale and Transportation of Gas</u></b>	<b>\$ 40,732</b>	<b>\$ 40,737</b>
17	<b><u>Cost of Gas</u></b>		
a.	To increase cost of gas for the demand cost under-recovery using a demand cost allocation factor of 16.01%, based upon the most recent design day study.	\$ 40,419	\$ 40,419
	<b><u>Total Cost of Gas</u></b>	<b>\$ 40,419</b>	<b>\$ 40,419</b>

**Settlement Schedule 2**

**Piedmont Natural Gas Company  
South Carolina Operations  
Explanations of Accounting and Pro Forma Adjustments  
Twelve Months Ended March 31, 2011  
Docket No. 2011-7-G**

<b><u>Line No.</u></b>	<b><u>Description</u></b>	<b><u>Per Piedmont</u></b>	<b><u>Per ORS</u></b>
<b>18</b>	<b><u>Operations and Maintenance Expenses</u></b>		
a.	To increase the provision for uncollectible accounts (rate of .28829%) following the adjustment for demand cost under-recovery.	\$ 117	\$ 117
b.	To increase the franchise taxes (rate of .3%) following the adjustment to revenue for demand cost under-recovery.	76	0
	<b><u>Total Operations and Maintenance Expenses</u></b>	<b>\$ 193</b>	<b>\$ 117</b>
<b>19</b>	<b><u>General Taxes</u></b>		
	To increase the franchise taxes (rate of .3%) and gross receipts tax (rate of .19221%) for the adjustment to revenue for demand cost under-recovery.	\$ 121	\$ 201
	<b><u>Total General Taxes</u></b>	<b>\$ 121</b>	<b>\$ 201</b>



**Settlement Schedule 3**

**Piedmont Natural Gas Company  
South Carolina Operations  
Weighted Cost of Capital  
Docket No. 2011-7-G**

Description	Capital Structure	Regulatory Per Books				As Adjusted				After Proposed Increase			
		Ratio	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return
Long-Term Debt	685,452,750	38.99%	75,017,459	5.90%	2.30%	4,426,030	74,991,356	5.90%	2.30%	4,424,490	74,991,356	5.90%	2.30%
Common Equity	1,041,211,503	61.01%	117,384,333	10.94%	6.67%	12,839,070	117,343,489	12.94%	7.90%	15,188,527	117,343,489	11.30%	6.89%
<b>Total</b>	<b>1,706,664,253</b>	<b>100.00%</b>	<b>192,401,792</b>		<b>8.97%</b>	<b>17,265,100</b>	<b>192,334,845</b>		<b>10.20%</b>	<b>19,613,017</b>	<b>192,334,845</b>		<b>9.19%</b>